GAO

Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

May 22, 2001

The Honorable James Inhofe
Chairman
The Honorable Daniel Akaka
Ranking Member
Subcommittee on Readiness and Management Support
Committee on Armed Services
United States Senate

Subject: <u>Defense Acquisitions: Navy and Marine Corps Pilot Program Initiatives to Reduce Total Ownership Costs</u>

The cost of operating and supporting the services' weapon systems is absorbing an increasing share of the defense budget and is reducing funds available for buying new systems. As a result, older weapons are being retained in the inventory longer, which further increases their operating and support costs. Operating and support costs include costs for fuel, repair parts, maintenance, and contract and support services, as well as for all civilian and military personnel associated with a weapon system.

The Department of Defense (DOD) has set broad goals for lowering the operating and support costs of both weapon systems in development and those already fielded. The projected life-cycle costs for developmental systems are expected to be 20 to 50 percent less than the systems being replaced. The operating and support costs of fielded systems are expected to be reduced 20 percent by 2005. The Department has established baselines against which the programs can calculate progress and is monitoring progress through quarterly reports.

In April 1998, DOD established an initiative that expanded program managers' responsibilities for designing and producing new weapon systems to include more accountability for the total ownership cost of the system, including its operating and support costs. Under this initiative, each service was to designate 10 programs as pilots to test innovative approaches to reduce total ownership costs, especially operating and support costs.

Report Date ("DD MON YYYY") 22MAY2001	Report Type N/A	Dates Covered (from... to) ("DD MON YYYY")

Title and Subtitle	Contract or Grant Number
Defense Acquisitions: Navy and Marine Corps Pilot Program Initiatives to Reduce Total Ownership Costs	
	Program Element Number

Authors	Project Number
	Task Number
	Work Unit Number

Performing Organization Name(s) and Address(es)	Performing Organization Number(s)
General Accounting Office, PO Box 37050, Washington, DC 20013	GAO-01-675r

Sponsoring/Monitoring Agency Name(s) and Address(es)	Monitoring Agency Acronym
	Monitoring Agency Report Number(s)

Distribution/Availability Statement
Approved for public release, distribution unlimited

Supplementary Notes

Abstract
This is the third in a series of reports in response to your request that we evaluate the military services' efforts to reduce weapon systems operating and support costs. We previously reported on Army and Air Force efforts. 1 We reported a lack of accountability and priority in reducing their systems operating and support costs. We recommended that the Army and Air Force develop operating and support cost goals for each weapon system and track progress toward achieving those goals. To complete our evaluation of the military services' operating and support cost reduction efforts, we examined 10 Navy and Marine Corps pilot programs and briefed your staff on the results. This letter summarizes our observations on the Navy and Marine Corps pilot programs and provides, as an enclosure, our briefing slides.

Subject Terms

Document Classification unclassified	Classification of SF298 unclassified
Classification of Abstract unclassified	Limitation of Abstract unlimited

Number of Pages 15	

This is the third in a series of reports in response to your request that we evaluate the military services' efforts to reduce weapon systems operating and support costs. We previously reported on Army and Air Force efforts.[1] We reported a lack of accountability and priority in reducing their systems' operating and support costs. We recommended that the Army and Air Force develop operating and support cost goals for each weapon system and track progress toward achieving those goals.

To complete our evaluation of the military services' operating and support cost reduction efforts, we examined 10 Navy and Marine Corps pilot programs and briefed your staff on the results. This letter summarizes our observations on the Navy and Marine Corps pilot programs and provides, as an enclosure, our briefing slides.

Summary of Navy and Marine Corps Operating and Support Cost Reduction Efforts

The Navy and Marine Corps cited a number of initiatives to reduce weapon system operating and support costs. For example, they are using an open architecture design method that reduces the cost of component replacement and changes later in system life. They are also providing contractor incentives to include more operating and support cost saving features in the system's design. In addition, the Navy has other related objectives and initiatives that could significantly reduce operating and support costs. These include reducing manpower requirements, improving the quality of life for sailors, improving the responsiveness of the supply system, and improving performance by improving reliability and reducing maintenance requirements.

Through these and other initiatives, the Navy and Marine Corps have reported progress in reducing operating and support cost in its pilot programs. The table below shows the reported progress of the programs as estimated for fiscal year 2005.

Table 1: Navy and Marine Corps Cost Avoidance/Reduction in Fiscal Year 2005
Dollars in millions

Pilot program	Cost avoidance/reduction fiscal year 2005
Standoff Land Attack Missile Expanded Response	$3.3
H-60 Helicopter	10.0
Aviation Support Equipment	161.0
EA-6B	15.8
CG-47 Class Aegis Cruiser	62.3
CVN—68 Class Carrier (9 carriers)	57.6
Medium Tactical Vehicle Replacement	20.0
Advanced Amphibious Assault Vehicle	0.3
LPD-17	80.0
Common Ship	91.0

---

[1] *Defense Acquisitions: Air Force Operating and Support Cost Reductions Need Higher Priority* (GAO/NSIAD-00-165, Aug. 29, 2000) and *Defense Acquisitions: Higher Priority Needed for Army Operating and Support Cost Reduction Efforts* (GAO/NSIAD-00-197, Sept. 29, 2000).

Although each program expects some costs to decline, the Navy and Marine Corps report that costs could decline even further if some challenges were successfully resolved. Similar to our findings in the Army and Air Force, Navy program officials report that operating and support cost reductions do not have the same funding priority as performance or safety issues. Program officials also report that the database used to track operating and support costs could be improved. Officials agreed that focusing attention on operating and support costs through the pilot programs as well as through Navy and Marine Corps policy resulted in incentives to lower costs.

In our previous reports, we recommended that the Army and Air Force develop specific and measurable operating and support cost requirements for each of their weapon systems and track progress in meeting them in the same manner that development and procurement costs are established, tracked, and measured. We believe that the Navy and Marine Corps, like the Army and Air Force, would benefit from early establishment of specific, measurable requirements for each weapon system's operating and support costs and monitoring of progress toward achieving those requirements.

The enclosure to this letter contains the briefing slides that we prepared on the Navy and Marine Corps initiatives to reduce operating and support costs. These briefing slides were reviewed by officials from the Navy, the Marine Corps, and the Office of the Secretary of Defense, and these officials provided oral comments on the technical accuracy as well as tone and clarity of the presentation. We incorporated their comments as appropriate. The officials agreed with our observations noting that readiness was the Navy and Marine Corps first priority.

If you or your staff have any questions on these matters, please call me on (202) 512-4841 or Bill Graveline on (256) 650-1414.
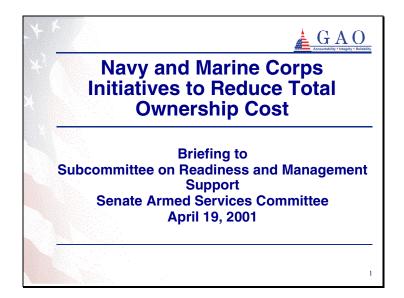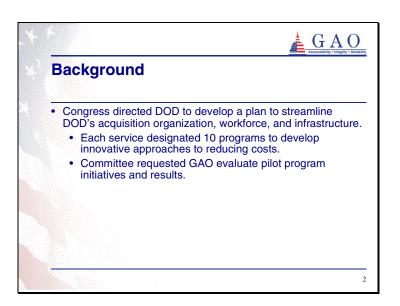
James F. Wiggins
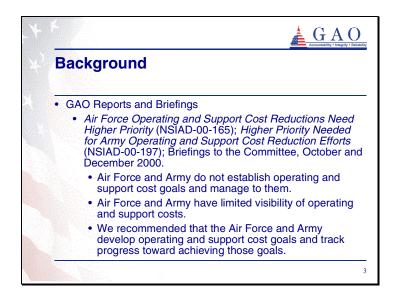Director, Acquisition and Sourcing Management

Enclosure

Slide 1

**Navy and Marine Corps
Initiatives to Reduce Total
Ownership Cost**

**Briefing to
Subcommittee on Readiness and Management
Support
Senate Armed Services Committee
April 19, 2001**

1

Slide 2

Background

- Congress directed DOD to develop a plan to streamline DOD's acquisition organization, workforce, and infrastructure.
  - Each service designated 10 programs to develop innovative approaches to reducing costs.
  - Committee requested GAO evaluate pilot program initiatives and results.

2

Slide 3

Slide 4

Slide 5

Slide 6

Slide 7

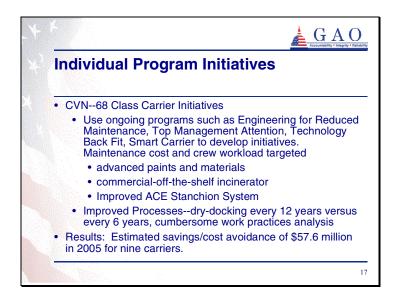

Slide 8

Slide 9

Slide 10

Slide 11

Slide 12

Slide 13
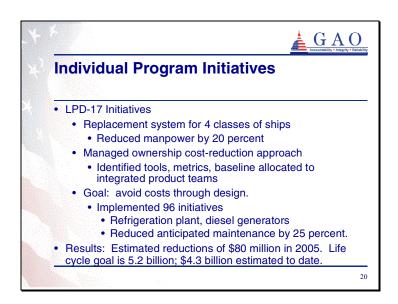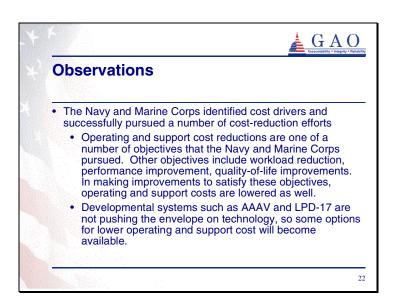

Slide 14
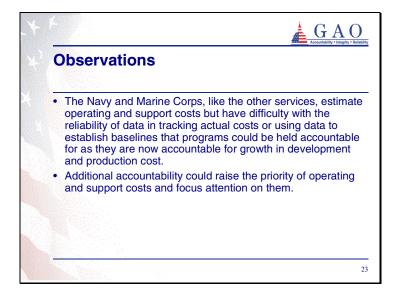
Slide 15

Slide 16

Slide 17

Slide 18

Slide 19

Slide 20

Slide 21

Slide 22

Slide 23

(120036)